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Labour costs cripple component makers

Suppliers feel the pain as Ford and General Motors lose market share

LIFE may be tough for Ford and General Motors, the world's top two motor groups, but it is positively hellish for the companies that make their components.

Last week Visteon, Ford's former components operation that was spun off five years ago, agreed to hand back 23 facilities -17 factories and six office and research buildings -to its former parent in an effort to stave off bankruptcy. It was Visteon's second bail-out from Ford in two years.

At Delphi, GM's former parts operation, the situation is arguably worse. Delphi, a global operation that employs some 4,000 people in Britain, is possibly weeks away from filing for Chapter 11 bankruptcy protection from its creditors.

Robert Miller, the industry veteran who was parachuted in as company chairman in July, was pulling no punches at the Frankfurt show. He said the company could no longer support the high cost of labour at its North American operations. "We are going to stop the problem of high labour costs. I don't know if we are going to do it in or out of Chapter 11, but we will do it," he said.

But Miller said if the decision were taken to enter Chapter 11, only the company's American facilities would be affected. "Our international operations, including those in Europe, are healthy. This would be a US-only activity," he said.

A decision is likely sooner rather than later. Miller said while there was no immediate deadline for talks with the company's unions to be resolved, American bankruptcy laws would change on October 17. "It will be the biggest change in bankruptcy laws in 30 years, so there is a strong argument not to be the guinea pig," he said. *

Delphi has been squeezed not only by its high labour costs -foisted on the company by labour contracts it inherited when it was spun off from GM in 1999 - but also from GM's shrinking share of the American market. GM's take has dropped from 30% at the time of the spin-off to 25% today.

"That fall in market share means that we have 4,000 people standing around doing nothing, but we have to keep them on full pay. It is costing us \$100m (Pounds 55m) a quarter," said Miller.

Delphi has asked GM for financial assistance to help it smooth the transition to new labour contracts. Miller said it was in the carmaker's interest to help out because it would eventually lead to a lower cost of components for its cars, but also because if Delphi collapsed, the liability for worker pensions and healthcare payments would fall back on GM.

Miller said the company was determined to avoid the fate of Collins & Aikman, a Delphi rival that collapsed into administration in May. "They were in denial right up until the end. It was chaotic and an embarrassment to the motor industry. It was a terrible mess and frankly it scared me."

---- INDEX REFERENCES ----

COMPANY: GENERAL MOTORS CORP; COLLINS AND AIKMAN CORP (OLD)

NEWS SUBJECT: (Market Data (1MA11); Business Management (1BU42); Financially Distressed Companies (1FI85); Market Share (1MA91); Major Corporations (1MA93); Sales & Marketing (1MA51))

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